

LD 1924 Sum m a r y

An Act to Reduce the Cost of Local Government
Through Increased State Education Funding and
Provide Property Tax Relief

Enacted 5-12-04

Property Tax Relief

Through Increased Education Funding

LD 1924 As Enacted :

- **Commits the State to a Significantly Greater Share of K-12 Education Costs** over the next five years using a rational, responsible, well defined approach to achieve long-term property tax relief.

The new statutory requirements increase the state share from approximately 42% today to 46.5% in FY06, 48.0% in FY07, 50.0% in FY08, 52.5% in FY09 and 55.0% in FY2010. Those increases provide \$340 million in additional state funds over the five-year period when compared to current law and nearly \$750 million more when compared to just maintaining the current state share of 42% over the period. The increased commitments each year are exactly those agreed to by MMA and MEA in their negotiations with the Tax Reform Legislative Working Group during this last Session.

- **Strengthens the Essential Programs and Services (EPS) Model** of school funding, enacted by the 121st legislature, by including special education and transportation in the model and by providing the increased state support over the specified five-year period necessary to achieve the new statutory requirement of 55% state share of K-12 education costs by FY2009-10

The bill does not alter the phase-in of EPS but does commit to a much greater state share of those phased-in costs. The final EPS models for special education and transportation, now required by LD1924, will be incorporated during the 122nd Legislative Session in time for EPS implementation in FY2005-06.

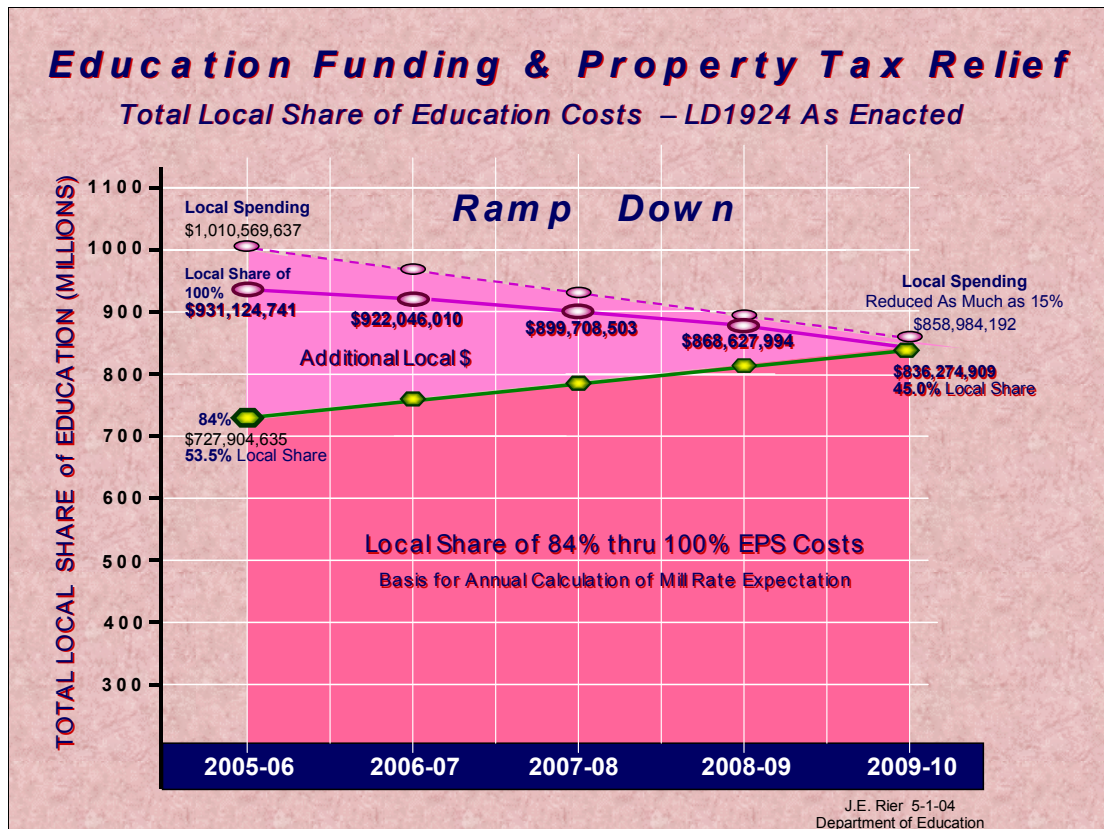
- **Establishes a new method of distribution** for the state share of education funding that will ensure that local municipalities, single or part of a school administrative unit, will not be required to raise more than 8 mills for their local share of education costs by FY2010

*Essential Programs and Services (EPS) provides the foundation for **student equity** statewide by recognizing the programs and associated costs necessary for all students to meet Maine's Learning Results. This new method of distribution provides **taxpayer equity** by limiting the amount of property tax mill rate that should be required to support the local share of EPS. The state share becomes the difference between the amount raised by the established maximum mill rate and the total EPS identified costs*


LD1924 As Enacted : (continued)

- Establishes the **Municipal Budget Analysis Committee** charged with measuring the progress and success in achieving property tax relief and adequacy and equity in education funding.

This important provision of the bill was included to be sure that the "ramp up" in state commitment to local education costs would in fact result in a "ramp down" of local property tax burden. The Committee must present an annual report to the Legislature along with recommendations for possible action to ensure that the stated goals are achieved. The legislation includes certain benchmarks and performance indicators that the committee must use to evaluate the effectiveness of increased state support for public education in reducing the property tax burden statewide and in individual municipalities.



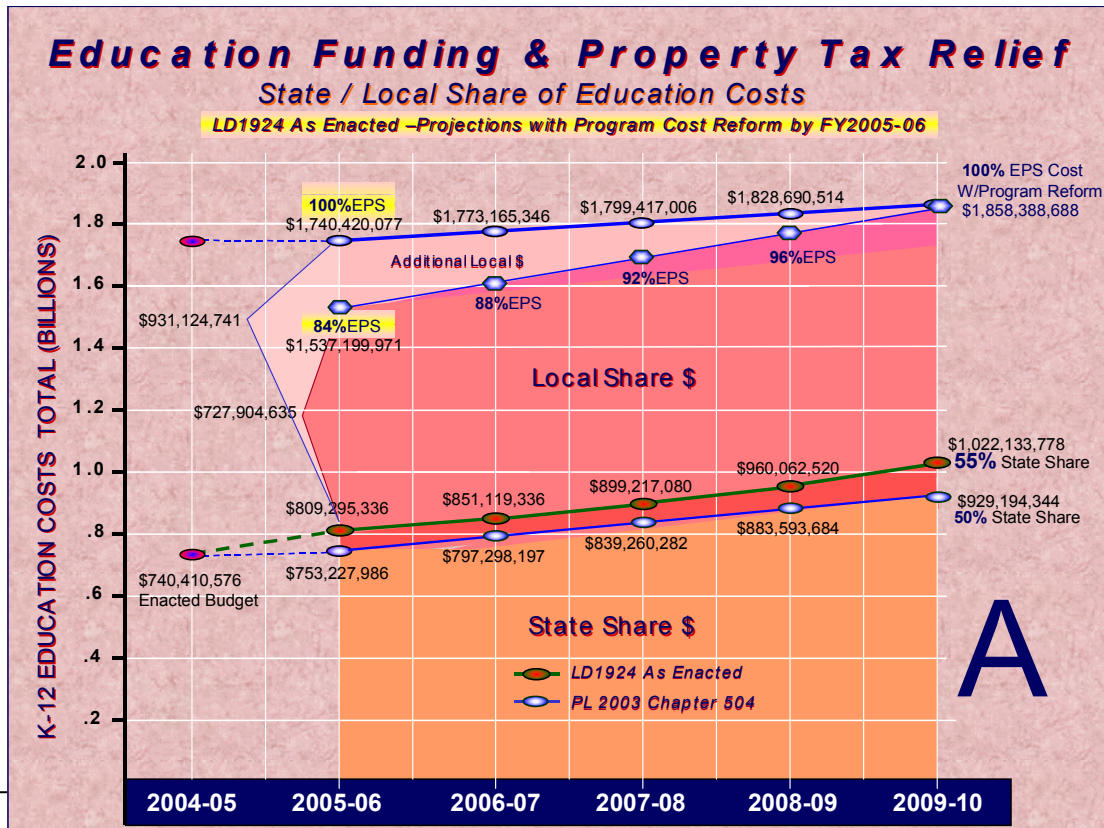
LD 1924 As Enacted : (Continued)

-  **Delays Maine's Learning Results Implementation and Graduation Requirements** for some content areas by one year to the 2007-2008 school year

The requirement that students demonstrate achievement of mathematics and English language arts standards of Maine's Learning Results as a basis for graduation from high school is delayed by one year to the 2007-08 school year. The Learning results implementation requirements for the three content areas of career preparation, foreign languages, and visual and performing arts are also delayed by one year to the 2007-08 school year. The timeline for completing the local assessment system and the requirement that public high school graduation be determined by student achievement of the standards in all eight content areas by the 2009-2010 school year remains unchanged.

Key Tax Relief / Education Components In LD1924 as Enacted 4-30-04

LD1924 further develops and strengthens the Essential Programs and Services (EPS) model of school funding by including special education and transportation in the model and delivers significant long-term property tax relief by providing significantly increased state support over the specified five-year period. These aggressive funding commitments also achieve the new statutory requirement of 55% state share of statewide K-12 education costs by FY2009-10. The legislation does not alter the phase-in requirements for EPS that recognize 84% of *operating costs* in FY2005-06 and annually increases that recognition to 100% of all EPS defined costs by FY2009-10. When combined with the new maximum local mill rate expectation, the substantial increases in state share over the period will provide a measured approach to real property tax reductions in most municipalities.

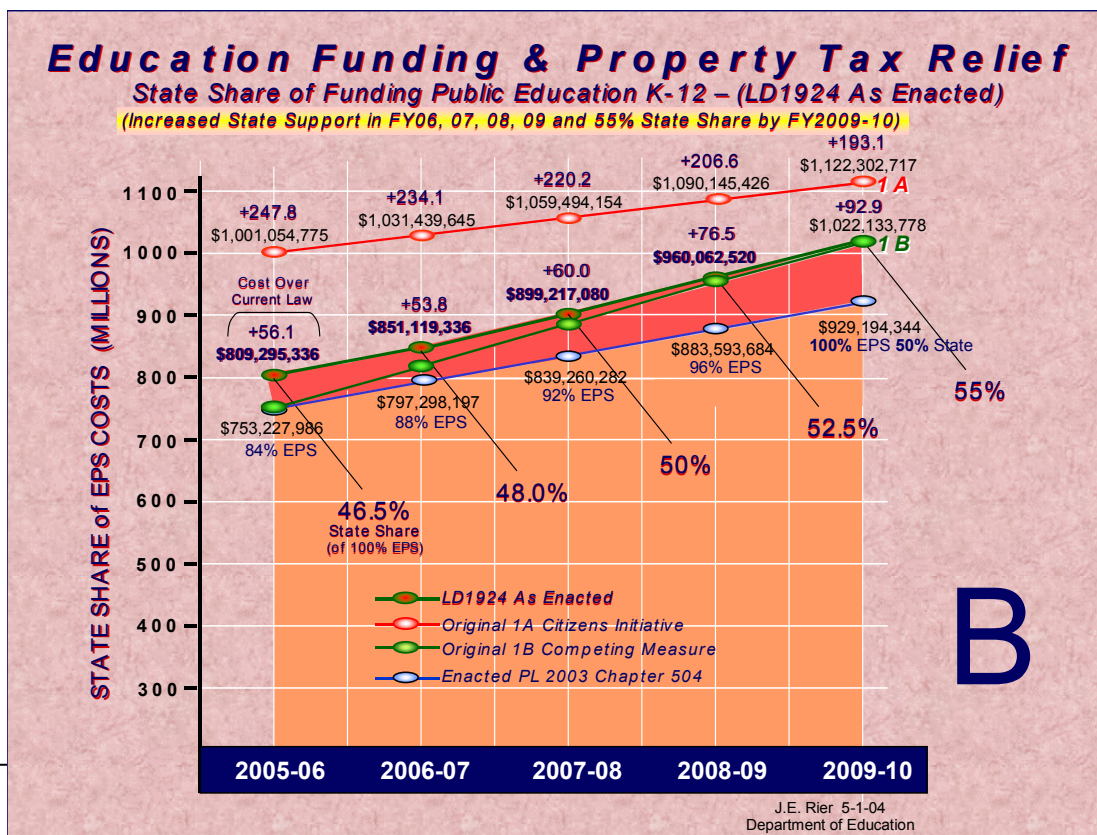


- ✓ The projected total costs for 100% implementation of EPS are calculated for each year over the period of the legislation, FY2006 through FY2010 (\$1.740 billion in FY2006 to \$1.858 billion in FY2010) **100% EPS**
- ✓ Increased state support phases in over the five years through greater recognition of EPS defined costs from 84% of *Operating Costs* in FY2006 to 100% of all costs by FY2010 (\$1.537 billion in FY2006 **84% EPS** to \$1.858 billion in FY2010)
- ✓ The state share of the phased-in EPS defined costs increase each year from 52.6% in FY2006 to 55% by FY2010. This equates to the state share of all EPS defined costs increasing from 46.5% in FY2006 to a full 55% in FY2010

State Share Projections

Previously enacted EPS legislation (LD1623-PL2003 Chapter 504) specified a 50% state share by FY2009-10. LD1924 significantly increases the state share commitments in FY06, 07, 08, 09, and 2010 and sets a new statutorily required state share percentage to 55% in FY2010. Those new requirements provide an additional \$340 million in state support over the five-year period. (Red area in Graphic B below)

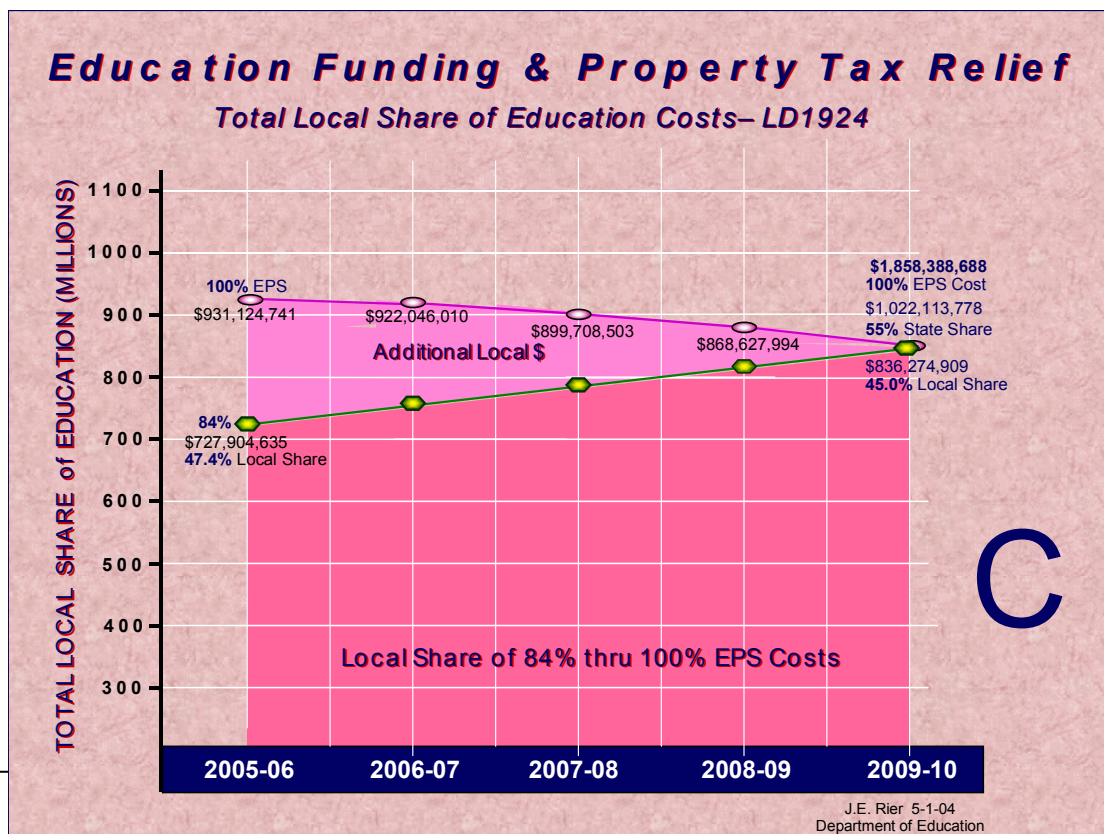
The impact on the state share associated with the Maine Municipal Association's (MMA) Citizens Initiative (1A), according to current estimates, would require an additional \$1.3 billion over the enacted PL2003 Chapter 504 and the same five-year period. However, recent negotiations by MMA, MEA, and a Legislative Working Group during this past session make it unclear how 1A would be implemented if approved by the voters in June. A resolution presented to the Senate in the late hours of the Session appears to outline MMA's agreement to allow a phase-in of the funding exactly as provided in LD1924 as enacted.



- ✓ As enacted (LD1623-PL2003 Chapter 504) increased state share from \$753 million in FY2006 to \$929 million in FY2010 and achieved 50% state share
- ✓ LD1924 state share increases from \$809 million in FY2006 to \$1.02 billion in FY2010 and reaches the goal of 55% state share
- ✓ The state share of the MMA proposal increases from \$1.00 billion in FY2006 to \$1.122 billion in FY2010.
- ✓ Total, state and local costs are significantly higher with the MMA proposal due to the 100% special education reimbursement requirement.

LocalShare Projections

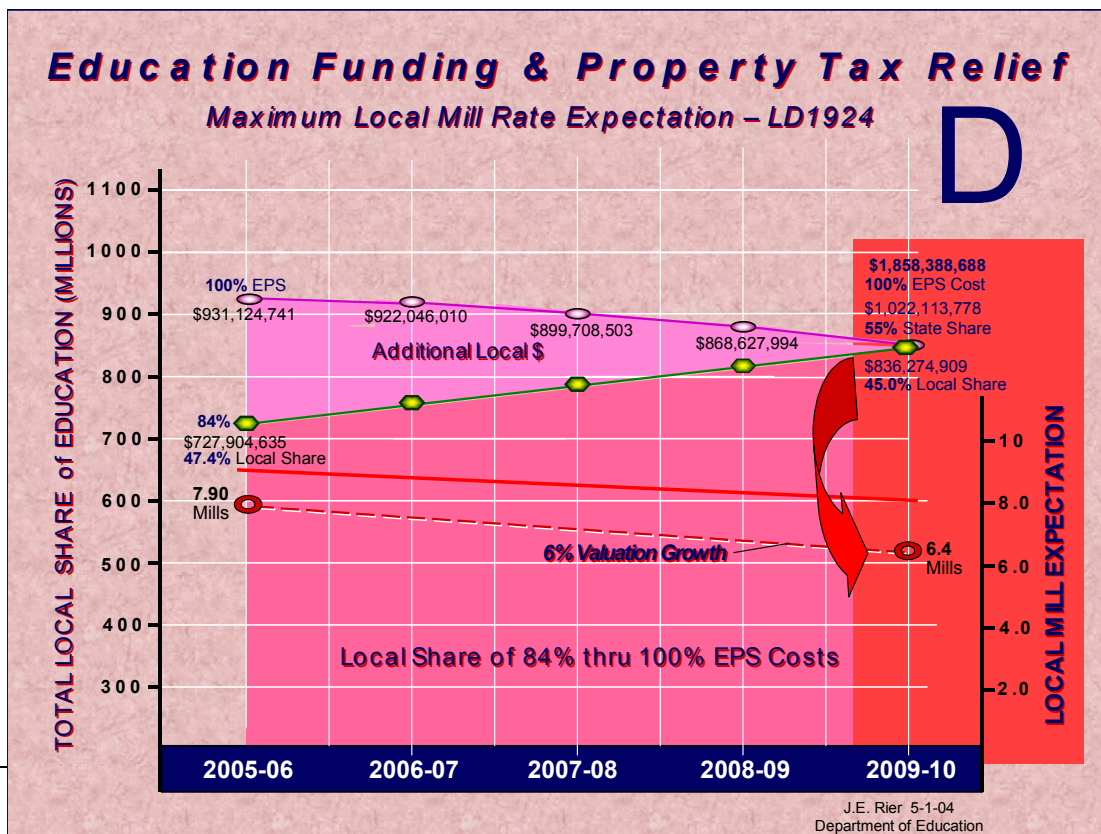
Current law defines a Total Allocation in statutory terms and a required local share of that total. Total Allocation, after many adjustments during the 1990's, does not reflect all the costs of providing K-12 Education. In fact, the current definition of Total Allocation actually recognizes only about 80% of the actual expenditures by local school administrative units state wide. The funding required above the defined Total Allocation for each School Administrative Unit is raised locally as Additional Local allocation. Essential Programs and Services begins to phase-in with FY 2005-06 recognizing more of the total K-12 costs (84% Operating Costs or 88.4% of all EPS defined costs) and by FY 2009-10 accounts for 100% of all EPS costs. The local share of those phased-in costs is required by LD1924 to be 47.4% in FY2005-06 and then decrease to 45% by FY2009-10. Additional local funds would still be required in most municipalities during the first years of the period to make up the difference between the phased-in EPS costs and the total costs to meet local education needs but would be less than those experienced in the current funding model.



- ✓ The local share of the EPS phased-in costs would increase from \$728 million (47.4%) in FY2000-06 to \$836 million (45%) in FY2009-10
- ✓ Total local expenditures, the local share of EPS phased-in costs plus additional local funds, would however decrease over the period from an estimated \$931 million in FY2005-06 to \$836 million in FY2009-10.
- ✓ The reduced local property tax commitment would come from the increasing recognition of EPS defined costs and the increasing state share requirements.

Local Mill Rate Expectation

The second major component in LD1924 relating to school funding and tax relief is the maximum local mill rate expectation approach to distribution of state subsidy. This new method of distribution for the state share of education funding will ensure that municipalities, single or part of a School Administrative Unit, will not be required to raise more than 8 mills of state valuation by FY2009-10 for their share of local education costs. Essential Programs and Services (EPS) provides the foundation for student equity statewide and this distribution method provides for greater taxpayer equity by limiting the amount of property tax mill rate that should be required to support the local share of EPS. The state share becomes the difference between the amount raised by the established maximum mill rate and the recognized EPS defined costs. The maximum local mill rate expectation is determined annually to respond effectively to state valuation trends and maintain the required state share. As valuations rise a lower mill rate will be required to meet the local share of education costs. The local share of EPS phased-in costs may not exceed 9 mills for FY2005-06.



- ✓ In FY2005-06 the required local share (47.4%) of the phased-in EPS costs is estimated to be \$728 million. The mill rate required to raise that \$728 million local share, based on the actual 2004 state certified valuation for each municipality, would be 7.90 mills or less
- ✓ In FY2009-10 the required local share (45%) of all the EPS defined costs would be \$836 million. Assuming a 6% annual growth in state certified valuation, the mill rate required to raise that \$836 million would be 6.4 mills or less

In municipalities that are part of school systems currently spending at or above EPS defined costs there will still need to be additional local funds raised that increase the total mills for education required during the first years of the measure. However, many systems are not currently spending up to the EPS defined costs and will not experience the same impact. Greater state commitment over the phase-in and some increased local commitment will help those communities provide a full education program and more opportunity for their students to achieve Maine's Learning Results. After all achieving equity of student opportunity has been a fundamental goal of Essential Programs and Services since work began on the project nearly ten years ago.

LD1924 is a structured well-planned approach to achieving greater state support for K-12 education and reducing the property tax burden while honoring and supporting a host of education reform initiatives well underway. The linkage between Essential Programs and Services and Maine's Learning Results is well established. The goal of full implementation of both is further enhanced through the strengthened and timely commitment of resources included in LD1924.